

**Department of Finance and Administration**

**For the Year Ended  
June 30, 1999**

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STATE OF TENNESSEE  
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**John G. Morgan**  
Comptroller

April 14, 2000

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
The Honorable John Ferguson, Commissioner  
Department of Finance and Administration  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Finance and Administration for the year ended June 30, 1999.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Finance and Administration's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Finance and Administration is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control to the Department of Finance and Administration's management in a separate letter.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/mb  
99/093

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Finance and Administration**  
For the Year Ended June 30, 1999

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## AUDIT SCOPE

We have audited the Department of Finance and Administration for the period July 1, 1998, through June 30, 1999. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1999, and the Tennessee Single Audit Report for the same period. These areas included the statewide controls administered by the Department of Finance and Administration and other state agencies. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of department employees' access to the state's computer systems, internal audit activities, equipment records and billing at the Office for Information Resources, Insurance Administration and Accounting, the Budget Division, billing procedures in the Division of Resource Development and Support, State Building Commission contracts and departmental contracts, the Division of Real Property Management and Capital Project Management, contingent revenue, Developmental Centers, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and disbursement of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT FINDINGS

### **The Tennessee Insurance System Has Significant Problems Which Caused TIS and STARS Not to Reconcile\*\***

Daily activity recorded in the Tennessee Insurance System (TIS) does not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor can it be reconciled (page 5).

### **The Division of Mental Retardation Services (DMR) Did Not Provide Adequate Monitoring of Medicaid Home and Community Based Services**

DMR must make certain assurances as to the health and welfare of recipients and of financial accountability as part of their contract with TennCare. DMR did not comply with the contract requirements (page 7).

**Claims for Services Provided to the Mentally Retarded and Developmentally Disabled Have Not Been Paid in Accordance With the Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver (HCBS)**

DMR has paid HCBS waiver claims that were unallowable because they were for services that were not provided (page 8).

**STARS Program Changes Were Not Properly Documented or Approved by Management\***

The State of Tennessee Accounting and Reporting System (STARS) program changes were not properly documented and approved (page 14).

**Recordkeeping for Equipment Is Inadequate\***

Clover Bottom Developmental Center has not performed its annual inventory and does not maintain accurate property records (page 19).

\* This finding is repeated from the prior audit.

\*\*This finding is repeated from three prior audits.

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“Audit Highlights” is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
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**Audit Report**  
**Department of Finance and Administration**  
**For the Year Ended June 30, 1999**

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# **Department of Finance and Administration For the Year Ended June 30, 1999**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Department of Finance and Administration. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The mission of the Department of Finance and Administration is to provide financial and administrative support services for all facets of state government. The business, finance, and managerial functions of state government are centralized here; the department prepares and executes the state budget, accounts for state revenues and expenditures, operates a central data processing center, plans and reviews construction and alteration of state buildings, and controls state-owned and leased property.

The Department of Finance and Administration contains seven divisions: Budget, Administration, Accounts, Office for Information Resources, Insurance Administration, Resource Development and Support, and Capital Projects/Real Property Management.

Executive Order 9 transferred the management and operations of Arlington Developmental Center and the West Tennessee Office of Community Services to the Department of Finance and Administration, effective February 7, 1996. In addition, Executive Order 10 transferred the management and operation of Arlington, Clover Bottom, Greene Valley, and Nat T. Winston Developmental Centers, and the Middle and East Tennessee Offices of Community Services to the Department of Finance and Administration, effective October 14, 1996. Included in this transfer was the Central Office Programmatic and Administrative Support within the Division of Mental Retardation Services.



Executive Order 21 was issued on July 29, 1999, to clarify the administrative responsibilities of the Department of Finance and Administration. It stated that the Department of Mental Health and Mental Retardation Administrative Services Division will remain part of the Department of Mental Health and Mental Retardation but will perform all administrative support functions and administer the major maintenance and equipment appropriation for the Division of Mental Retardation Services.

Executive Order 23 was issued on October 19, 1999, to transfer the TennCare program and its related functions and administrative support from the Department of Health to the Department of Finance and Administration.

An organization chart of the department is on the following page.

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## **AUDIT SCOPE**

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We have audited the Department of Finance and Administration for the period July 1, 1998, through June 30, 1999. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1999, and to the Tennessee Single Audit Report for the same period. These areas included the statewide controls administered by the Department of Finance and Administration and other state agencies. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of department employees' access to the state's computer systems, internal audit activities, equipment records and billing at the Office for Information Resources, Insurance Administration and Accounting, the Budget Division, billing procedures in the Division of Resource Development and Support, State Building Commission contracts and departmental contracts, the Division of Real Property Management and Capital Project Management, contingent revenue, Developmental Centers, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and disbursement of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

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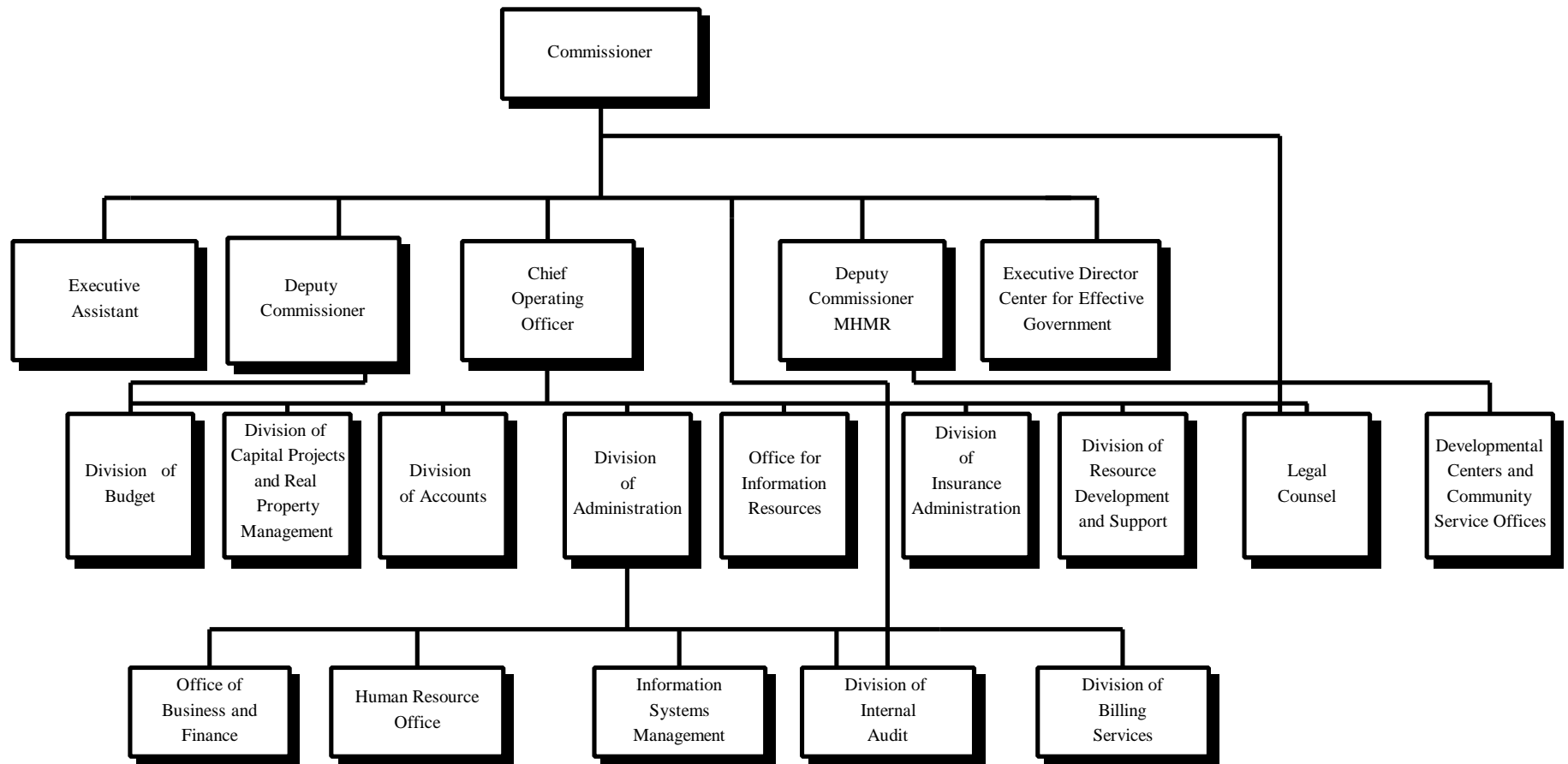
## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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### **AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT**

Our audit of the Department of Finance and Administration is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit

## DEPARTMENT OF FINANCE AND ADMINISTRATION



Note: Lighter lines indicate to whom a division reports for business matters if it is different from administrative matters.

of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

The Department of Finance and Administration is responsible for maintaining the state's central accounting system and preparing the CAFR. The department, in conjunction with other state agencies, provides centralized statewide controls in the following areas:

- Statewide accounting system
- Budgets and appropriations
- Cash receipts and disbursements
- Payroll transaction processing
- Fixed asset records

As part of our audit of the CAFR, we reviewed selected controls over these areas in the Department of Finance and Administration and other state agencies.

To address our statewide audit objectives, we interviewed key department employees; reviewed applicable policies and procedures; examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; performed analytical procedures, as appropriate; assessed the accounting principles used and significant estimates made by management; and evaluated the overall financial statement presentation. Our testing focused on the propriety of financial statement presentation, the adequacy of internal controls, and compliance with applicable finance-related laws and regulations.

Our audit of the Department of Finance and Administration is also an integral part of the Tennessee Single Audit which is conducted in accordance with the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Single Audit Act requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal accounting and administrative control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

We determined that on June 30, 1999, the Department of Finance and Administration had no federal programs which were material to the CAFR and to the Single Audit Report; however, the Division of Mental Retardation Services administers the Medicaid Home and Community Based Services waiver, which was reviewed as part of a separate review of TennCare.

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 1999, and have issued our report thereon dated December 10, 1999. The opinion on the financial statements is unqualified. The Tennessee Single Audit Report for the year ended June 30, 1999, will include our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

Our testwork resulted in the following findings. We also reported minor weaknesses to management in a separate letter.

**1. The Tennessee Insurance System has significant problems which caused TIS and STARS not to reconcile**

**Finding**

As noted in the three prior audits, the Tennessee Insurance System (TIS) has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, the system is not producing the desired results, and changes are being made directly to the TIS database through the Application Development Facility (ADF). Because these changes are not being made to the insurance accounting on the State of Tennessee Accounting and Reporting System (STARS), TIS and STARS do not reconcile. Management responded to the prior audit finding and stated that the Division of Insurance Administration was committed to resolving the problems with TIS. Management stated that through ongoing maintenance some of the issues have been resolved or minimized. The department is to begin a major reengineering effort of the system in FY 2000. Management did reduce the number of items on the System Information Request Log; however, the reconciliation problems still exist.

The division is still using Application Development Facility (ADF), a software program, to manually adjust participants' accounts on TIS. These adjustments to participants' accounts are made directly in the TIS database rather than through transactions. The system's security must be overridden in order for an ADF change to be made. The division sends a request for the ADF change to the department's Information Systems Management (ISM) group, which in turn submits a request to the Office for Information Resources (OIR). OIR assigns one of its employees to make the ADF changes on the TIS database. As noted in the prior audits, overriding system security to make manual adjustments is a significant deficiency in the design and operation of the system.

The Division of Insurance Administration uses ADF as a "quick fix" to correct participant balances or errors attributable to unresolved system problems. Although division staff maintain paper documentation of the ADF changes, the system has no history or record of the changes because they simply overwrite previous information in the database. If the system had been designed and was functioning properly, use of ADF would not be necessary. As previously noted, making changes directly to a database instead of correcting errors through properly authorized and documented transactions circumvents system controls.

In addition, when the TIS database is corrected using ADF, STARS is not updated concurrently. As a result, the two systems do not agree, nor can they be completely reconciled. The division has work groups working to address reengineering the information system and focusing on balancing TIS to STARS. However, the auditors noted that unreconciled amounts between the daily net change in the TIS database and the cumulative accounting transactions passed from TIS to STARS daily during fiscal year 1999 ranged from (\$195,347.32) to \$11,497.12.

Departmental memorandums state that the TIS database is correct but the accounting information on STARS is incorrect. Although STARS has been corrected to the extent possible, there can be no assurance all needed corrections have been made since not all ADF changes made to TIS were made on STARS and TIS does not maintain history records of all past transactions. We performed analytical reviews and other measures at year-end to ensure the insurance funds' financial statements presented in the state's Comprehensive Annual Financial Report were fairly stated. These additional procedures would not have been necessary had all TIS activity been properly reflected in STARS.

### **Recommendation**

The Commissioner should require the Director of Insurance Administration to develop plans of action to ensure that all TIS system problems are corrected as soon as possible. As the system problems are corrected, the use of ADF changes should be minimized and, if possible, eventually eliminated. Until that time, STARS should be concurrently updated as ADF changes are made to TIS. In addition, the work groups should continue to meet until all the problems causing the unreconciled amounts are resolved and TIS and STARS can be reconciled. As problems arise in the future, causes of the problems should be quickly identified and TIS should be corrected quickly through program changes or other appropriate means.

### **Management's Comment**

We concur. The TIS Re-engineering project is scheduled to begin in February 2000. Although this project should address many of the systems problems that require ADF changes to be made, there is no assurance that all will be addressed. Therefore, a TIS Master Transaction Study has been identified for FY 2001 that is intended to analyze all uses of ADF in the support of TIS, and to identify strategies for eliminating its use. However, there will likely be errors in the entry of transactions, either in the Division of Insurance Administration or by participating agencies, which will impact the eligibility information maintained by the Tennessee Insurance System. These errors will require the circumvention of controls and edits to address the immediate problem caused by the error. What is essential is to have the procedures in place to ensure that the changes made are addressed in both TIS and STARS, and that a request for service to correct the underlying error is submitted and program changes made accordingly.

The Division of Insurance Administration has carefully reviewed the use of ADF's to minimize their occurrence. The Division has instituted a training program for agency insurance preparers to improve the information and support they receive and has instituted reviews of the origins of ADF's to identify the system sources of these adjustments and the sources attributable to human performance. Finally, the Division has separated activities associated with the receipt and processing of ADF's to ensure adequate internal control of ADF application, justification and record retention.

Additionally, the use of ADF is not the only cause of the problem with the TIS to STARS reconciliation. There are program errors causing incorrect accounting transactions to be generated as well. That is, all records and data values in TIS may be correct, but the accounting for the activity in TIS, which is fed to STARS, is incorrect. Again, it is essential to have procedures in place to ensure that a request for service to correct the underlying error is submitted and program changes made accordingly.

**2. The Division of Mental Retardation Services did not provide adequate monitoring of Medicaid Home and Community Based Services**

**Finding**

The Division of Mental Retardation Services (DMR) did not comply with its contract monitoring requirements for the Medicaid Home and Community Based Services (HCBS) for the Mentally Retarded and Developmentally Disabled waiver. The contract between the TennCare Bureau and DMR requires DMR to give assurance that necessary safeguards will be taken to protect the health and welfare of the recipients of home and community based services (HCBS) and assurance of financial accountability for funds expended for home and community based services.

Testwork revealed that DMR is adequately monitoring to ensure that the traditional long-term care providers have the necessary safeguards in place to protect the health and welfare of waiver recipients. However, testwork revealed that DMR has not adequately monitored the waiver's alternative providers. Alternative providers are home health agencies and individual providers such as dentists, behavioral therapists, nutritionists, physical therapists, etc.

In addition, DMR is not providing necessary assurance of financial accountability for funds expended for all providers. Furthermore, DMR's current monitoring policies have not been revised to include the monitoring process for the alternative providers and do not include the fiscal monitoring process for the financial accountability assurances.

DMR relies on programmatic personnel at the regional offices to perform monitoring for health and welfare assurances of the traditional long-term care providers. DMR and the Department of Mental Health and Mental Retardation share responsibility for fiscal monitoring.

Although fiscal monitors were employed for the Middle Tennessee Regional Office – Nashville and in the East Tennessee Regional Office – Knoxville during the year ended June 30, 1999, the West Tennessee Regional Office – Memphis did not have a fiscal monitor during this period. During June 1999, the fiscal monitor at the Middle Tennessee Regional Office left, leaving this position vacant. In the absence of fiscal monitors, DMR programmatic monitors have performed fiscal monitoring tasks; however, on a statewide basis, monitoring may not be effective for financial accountability because the programmatic staff performing fiscal monitoring may not be adequately trained to perform fiscal monitoring.

Furthermore, the Middle and West Tennessee Regional Offices did not maintain back-up documentation for fiscal monitoring activities and the West Tennessee Regional Office did not maintain back-up documentation for health and welfare monitoring. Survey results were documented and final reports disseminated, and these are the records that were maintained. However, without all documentation of the monitoring activities, TennCare cannot be certain contract requirements regarding assurances of health and welfare and of financial accountability are met.

### **Recommendation**

The Deputy Commissioner should ensure DMR complies with contractual requirements for assurances of health and welfare and of financial accountability. Monitoring policies and procedures should be developed to ensure all federal requirements are met.

### **Management's Comment**

We concur. DMR has developed and implemented many community policies that relate to monitoring and oversight. Approximately 3% of claims are for services provided by alternative providers. DMR agrees that the monitoring for alternative providers can be enhanced and that current monitoring mechanisms for these providers can be better documented. DMR is in the process of implementing new monitoring procedures that will apply to alternative providers. These new procedures include enhanced fiscal monitoring guidelines for all providers. Also, since July, 1999, the West Tennessee Regional Office has begun to retain copies of the back-up documentation for health and welfare monitoring.

3. **Claims for services provided to the mentally retarded and developmentally disabled have not been paid in accordance with the Home and Community Based Services for the Mentally Retarded and Developmentally Disabled waiver**

## Finding

The Division of Mental Retardation (DMR) has paid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled waiver (HCBS waiver) claims outside the prescribed waiver arrangement. The waiver is designed to afford eligible individuals access to home and community based services as authorized by Section 1915(c) of the Social Security Act. Typically, any claims submitted by providers for services performed to waiver recipients would be processed in accordance with all applicable federal regulations and waiver requirements. In addition, the state would receive the federal match funded at the appropriate federal financial participation rate. However, DMR and TennCare have not processed waiver claims within federal requirements. As a result, the state contributed state funds for the waiver services without maximizing federal financial participation. For example, DMR has paid providers for services that cannot be charged to the federal grantor because they are not allowable under the waiver regulations.

Per Office of Management and Budget (OMB) Circular A-133, for costs to be allowable Medicaid costs, claims must be for allowable services rendered that are supported by records or other evidence indicating the services were provided and consistent with a recipient's plan of care for HCBS waiver services. In addition, the *Code of Federal Regulations* Title 42, Part 1003, Section 102, states that penalties or assessments may be imposed by the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services (HHS) if an item or service was not provided as claimed. Furthermore, the Federal Register, August 10, 1995, Volume 60, Number 154: Notices *OIG Special Fraud Alerts* states that claiming unperformed or excessive services is fraud and may be prosecuted by the OIG.

The HCBS waiver requirements prohibit services for recipients when they are absent from their homes. In addition, the HCBS waiver does not permit recipient leave days because care is home based and not performed in a residential facility. TennCare forwarded DMR a transmittal letter from the Health Care Financing Administration of HHS dated October 31, 1994, stating that leave days could not be paid for by the HCBS waiver. However, DMR implemented a system that would, in essence, permit patient leave days. For example, providers performing services for 300 days are paid the same amount as providers performing services for 365 days. DMR has also paid the providers rates that exceed the TennCare rates. In addition, the DMR payment system has no controls to prevent payment for unperformed services.

The current billing and payment process is as follows:

1. Medicaid services providers perform services for waiver recipients.
2. Providers bill DMR for services.
3. DMR pays providers based on rates established by DMR, but not the rates calculated in the waiver to TennCare. TennCare's rates are based on an average



cost per service. DMR uses the Community Services Tracking System and the State of Tennessee Accounting and Reporting System to pay the providers.

4. DMR bills TennCare as if DMR was a provider based on TennCare rates.
5. TennCare pays DMR, as if DMR was a provider, the TennCare rates using the TCMIS system.
6. Per the agreement with TennCare and DMR, at year-end TennCare and DMR intended to cost settle so that DMR could receive the difference between its full payment for services paid to providers and the amount which has been reimbursed by TennCare based on the TennCare rates.

Although TennCare management intended to cost settle with DMR, as described above, discussions with management subsequent to field work revealed that management will seek guidance from the grantor prior to proceeding with any cost settlement.

DMR has paid Medicaid providers more than the authorized rates, and in some cases has paid for unallowable leave days and unperformed services. DMR requires providers to bill using a standardized form generated by DMR that allows the providers to bill for total authorized services rather than for services that are actually performed. Because DMR does not provide a mechanism that allows providers to report/bill actual services performed, DMR has paid providers for all authorized services when actual services performed were less than those authorized. Testwork revealed that in one of 33 claims tested, a provider billed for more staff than was actually present for 21 of 28 days in the July 1998 billing period. Testwork also revealed that DMR used a payment and rate methodology that allowed providers to be paid for days (leave days) in which waiver recipients were not receiving services. In 8 of 33 claims tested, DMR paid Medicaid service providers for a full month of service when less than a full month of service was actually performed.

Because DMR administered the waiver outside of federal regulations, if an exception is not granted by HCFA, the state will have forgone \$30,631,388 of federal financial participation.

### **Recommendation**

DMR should not pay providers; payments should be directly from TennCare. However, if DMR is allowed to continue paying providers by HCFA, the Deputy Commissioner of the Division of Mental Retardation Services should review all federal requirements, including those in the waiver, and ensure that DMR complies with all requirements. The Deputy Commissioner should ensure that DMR pays providers in accordance with the waiver and only for allowable services that are actually performed. DMR provider billings to TennCare should reflect only the actual level of services performed.

## **Management's Comment**

We concur in part. It is acceptable for the Division of Mental Retardation Services (DMR) to pay providers of Waiver services. However, HCFA requirements do mandate that the State either 1) offer all providers the choice of billing either the Division of Mental Retardation Services or the Bureau of TennCare or 2) establish an Organized Health Care Delivery System that would permit only the Division to make payments. At this time, the Division and the Bureau of TennCare have not implemented either of these options, although the Bureau of TennCare has assured HCFA that the State will begin to address this issue.

The Division of Mental Retardation Services has not paid contracted providers for days when the person was not present or did not receive services nor has the Division billed the Bureau of TennCare for leave days since the mid 1990's when HCFA disseminated information that leave days were only applicable to institutional settings. The Division did develop an alternative payment system at that time that we maintain complies with the following information, which is excerpted from a HCFA Program Issuance-Transmittal Notice-Region IV, dated October 31, 1994:

Medicaid may only make payment for waiver or State plan services actually provided to an eligible recipient. In setting payment rates States may consider the fact that providers incur fixed costs (such as rent, salaries, insurance, etc.). For example, rent is generally paid for a period of one month. Day habilitation services are generally furnished only five days per week. When establishing rates of payment the State may take the entire month's rental cost into consideration as well as the assumption that a facility will not have a 100 percent utilization rate every day of the year. Since payments may not be made for non-institutional services on days when no service was provided, rates are established by dividing the provider's total allowable costs by the estimated number of Medicaid patient days.

Following the receipt of that information, the Division established the annual cost of services and divided payments to residential providers across 300 days. This was based on the reasonable assumption that if a minimum of 300 days of direct services are provided, then all fixed costs, including "rent, salaries, insurance, etc.", must be maintained for the additional days in a year and that these costs are part of the service that is in fact provided for 365 days. Payment in any individual month is capped at 25 days although providers are directed to report actual attendance if it exceeds 25 days. The Division bills TennCare actual days at an average rate for each residential service. During the annual reconciliation process at the end of the year, if the provider has provided 300 days of services but has not been paid for all of them due to monthly caps, the Division will pay for those days, up to a maximum of 300, during that one annual reconciliation. If the provider has not provided a minimum of 300 days of direct services, then the provider is only paid for those days.

The audit also reports that in 11 of 33 HCBS waiver claims tested (33.3%), DMR billed TennCare more service units than the actual service units claimed by the providers,

subject to the 25 units per month maximum. This is a distinct possibility since the Division could legitimately bill TennCare for more days than paid out to providers. Since DMR's payments to providers are paid at multiple payment rates and are based on 300 days and TennCare's payments to the Division are paid at an average cost based on 365 days, it is reasonable to expect that the Division will bill more days than providers. Please note that although the Division's payments to providers are capped at 300 days per year, the Division does require providers to report all actual days, so when the Division bills TennCare for additional days, those days are actual days of service, not leave days.

At this time, the issue of cost settlement has not been decided. However, should cost settlement occur, the DMR payments made to providers at the various established rates should not exceed the actual days of direct services provided to persons at the average cost of those services.

The audit report also cited the Division for paying for services when staffing patterns were not met. Although this is not optimal, the named service was in fact provided. To argue its point, the Division draws an equivalent with ICF/MR services which is the institutional equivalent of Waiver services. We are certain that those facilities are permitted to bill their per diem rates, even under circumstances when staff are sick or absent, and the facilities' required staff-to-client ratios are not met. Although the Division will agree that this is a weakness from a programmatic standpoint, it is not an indicator that services were not provided. This issue does concern the Division and it will be addressed through the development of guidelines for providers and Regional Office staff to follow when these circumstances arise as a pattern.

It is not accurate to state that no controls are in place to detect billing of unperformed services. The Division's Contract Compliance checklist which is used by DMR Regional Office staff to monitor the provision of services includes the requirement that each service is provided in conjunction with a person's Individual Service Plan and Cost Plan that has been authorized by the Division. The Division's Quality Enhancement surveyors monitor to determine whether billed services were actually provided. Additionally, providers are instructed through the DMR Operations Manual and billing procedures to bill actual days services were provided. These billings are then checked by the surveyors against attendance records and providers are cited for any variances. The Division does agree that with the tremendous growth of Waiver services, this component of our monitoring system needs to be expanded.

The Division maintains that the information presented does not indicate that claims for services have not been paid in accordance with the Home and Community Based Services Waiver. First, the Division has not paid for "leave days" but has developed a payment system that, we believe, fulfills HCFA requirements. Further, there is no requirement that service providers be paid directly by TennCare, only the requirement that each provider of Waiver services be offered the option. Additionally, the Division maintains that, even if staffing ratios are not always met, the service has been provided and is billable. DMR has certain controls in place in order to prevent payment for "unperformed services"; however, the Division is currently in the process of developing additional controls for identifying discrepancies. Also,

the Division will develop guidelines that address circumstances when services are provided but not at an optimum staff level. The Division agrees that its monitoring system would benefit from an increased focus on detecting errors in the billing and payment process.

### **Auditor's Comment**

According to federal regulations, as stated in the finding, DMR may not directly pay providers of HCBS waiver services. The Bureau of TennCare concurred with this issue in a related finding published in the Department of Health audit report for the year ended June 30, 1999. The TennCare Bureau also concurred that the present DMR payment process was not in compliance with all federal requirements of the waiver. The Bureau of TennCare specifically stated, "We will work toward the federal requirement that the Medicaid agency make payments directly to the provider of services."

The HCFA guidance is clear that Medicaid will only pay for waiver services actually provided to an eligible recipient. DMR contends that it has not paid contracted providers for days when a person was not present or did not receive services, nor has DMR billed TennCare for leave days since the mid 1990s. However, because DMR has established an alternative payment system to pay Medicaid providers, auditors believe that this alternative payment system, in essence, allows for leave days and payment of unperformed services.

As described in management's comment, DMR's alternative payment system is based on units of services that are different from the units of service defined in the HCBS waiver and federal regulations. As noted, DMR established the annual cost of services to providers and divided the costs across 300 days. However, through the TennCare Management Information system, TennCare reimburses DMR average unit costs spread across 365 days. As noted in the finding, DMR's alternative system allows providers who perform 300 days of services to be paid the same as providers who perform 365 days of services, which reaffirms the auditors' conclusion that some providers are paid for days when services are not performed (leave days).

The finding indicated that for 24% of waiver claims tested, DMR billed TennCare for a full month of services when less than a full month of service was performed. DMR stated in its response that this was a distinct possibility since DMR could legitimately bill TennCare for more days than paid out to providers. DMR further stated that since DMR's payments to providers are paid at multiple payment rates based on 300 days and that TennCare reimburses DMR average cost rates based on 365 days, it is reasonable to expect the DMR will bill TennCare for more days than providers bill to DMR. Auditors believe this is unallowable. In essence, DMR has admitted in their response that its alternative payment system has built-in leave days. Furthermore, DMR bases the number of days or units that can be charged by providers on a lesser number of maximum units than actually exist in one year of service as defined by the waiver.

As a result of the alternative payment system, the amount paid by DMR to Medicaid providers exceeds the Medicaid payment for services from TennCare. While the difference is not charged to the TennCare program, the state in effect is funding waiver services without maximizing federal financial participation.

The finding also cites DMR for paying providers for services when staffing patterns were not met. In its argument, DMR refers to regulations allowable for Intermediate Care Facilities for the Mentally Retarded, which are institutionalized services. However, the HCBS waiver program is uniquely different and does not follow the same rules as Intermediate Care Facilities for the Mentally Retarded because the HCBS waiver program is designed to provide services while allowing the recipient to live in his own home. In the HCFA Transmittal letter dated October 31, 1994, this is made clear:

States have raised questions regarding pertinence of regulations at 42 CFR 447.40 which permit payment to an institution for leave days. We note these provisions apply solely to institutional care furnished under the Medicaid State plan. Since institutional care is, by definition, not provided under a home and community based waiver, this regulation does not apply to waiver services.

By implementing a payment system outside the TennCare billing and payment system, DMR appears to have circumvented applicable federal requirements.

Furthermore, providers cannot bill for the actual level of services performed, but must bill for the authorized level of services whether they are provided or not. Without a mechanism for providers to report the actual level of service provided, federal and state funds could be paid for unperformed services. Finally, DMR concurred with finding 2 that adequate fiscal monitoring was not being performed. Therefore, DMR does not have an adequate system in place to eventually detect providers' billing errors.

#### **4. STARS program changes were not properly documented or approved by management**

##### **Finding**

As noted in the prior audit, State of Tennessee Accounting and Reporting System (STARS) program changes are not properly documented and approved. Management concurred with the prior finding stating, "We will take the necessary steps to ensure that all program change requests are properly initiated and approved." However, 6 of 11 STARS program change requests made during the year ended June 30, 1999, (55%) could not be located or were not signed. Five of 11 program changes (45%) did not have the Division of Accounts authorization signature. Also, no support could be located for three program changes deleted from the STARS Task Listing.

All program changes should be initiated only upon written requests approved by management. Without a proper program change approval process, programs could be modified and changed without management's knowledge, resulting in a system that does not meet user needs and stated objectives.

### **Recommendation**

The Director of Information Systems Management should ensure all program change requests are initiated only by written request and approved in writing before program changes are made. The documentation for program changes requested and performed should be retained to provide a paper trail and support for modification to the STARS system.

### **Management's Comment**

We concur. We have taken the necessary steps to ensure that all program change requests are properly initiated and approved. There is a period of time between the receipt of the prior audit finding and the implementation of the corrective procedure where exceptions still exist, as evidenced by the findings from this audit. However, effective July 1, 1999, all program change requests are properly initiated and approved. The procedure now in place requires that all program changes be initiated only upon written request from the authorized person(s), and that all program changes be implemented only upon written approval from the authorized person(s). Use of the term "written" includes a physical signature or an email from an authorized person.

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## **INTERNAL AUDIT**

Our objective in reviewing the Internal Audit Division was to determine if an adequate amount of auditing was being performed on internal control within the various divisions of the department. We attempted to determine if this division was meeting the goal of auditing all principal programs in the department within six years. We reviewed the yearly activity listing to determine if the amount and type of projects completed were adequate. As a result of our testwork, we had no findings. Minor weaknesses came to our attention which have been reported to management in a separate letter.

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## **BUDGET DIVISION**

Our objectives in reviewing the Budget Division were to determine whether

- the 1998-1999 appropriation bill would reconcile to the original budget and the final budget on the State of Tennessee Accounting and Reporting System (STARS);
- the budget document contains the information required in Section 9-6-106, *Tennessee Code Annotated*;
- the appropriation bill contains the information required in Section 9-6-108, *Tennessee Code Annotated*;
- the report on the estimated growth of the state's economy has been reviewed by the State Funding Board and has been properly followed up on; and
- the percentage increase in the recommended appropriations from state tax revenues does not exceed the percentage increase in Tennessee personal income for the succeeding fiscal year.

We interviewed key personnel to obtain an understanding of the budgeting process. We then obtained the appropriation bill for 1998-1999 and reconciled, for a sample of agencies, the approved appropriation bill amounts to the original budget that was recorded on STARS. We reviewed the budget document and the appropriations bill to determine whether they contained the required information. We determined if the State Funding Board has reviewed the report on the estimated rate of growth of the state's economy for the year ended June 30, 1999, and commented on its reasonableness. We determined if the State Funding Board provided a list of approved state tax revenue sources to the Department of Finance and Administration and if the department compiled estimates of revenue from the sources provided by the Board. Using this information we determined if the percentage increase of recommended appropriations from state tax revenues did not exceed the percentage increase of estimated Tennessee personal income for the succeeding fiscal year, based on the Tennessee Econometric Model.

As a result of our testwork, we had no findings related to this division.

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## **DIVISION OF RESOURCE DEVELOPMENT AND SUPPORT**

Our objectives in reviewing the procedures used by this division were to determine whether subrecipients were being properly monitored and whether departments and divisions which use this division to monitor their subrecipients were being properly billed for the service.

We interviewed key personnel and reviewed the procedures that were being used. To determine the procedures that should have been followed during the monitoring visits and to determine if enough subrecipients were monitored during the fiscal year, we reviewed the written agreements with the departments and divisions which use the services of this division. We tested a sample of monitoring reports to determine if the reports were complete and properly documented. In addition, we tested a sample of billings to determine if the billings had adequate support and appeared proper.

As a result of our testwork, we had no findings. Minor weaknesses came to our attention which have been reported to management in a separate letter.

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## **CONTRACTS**

Our objectives in reviewing the procedures related to contracts were to determine whether

- contracts were properly approved;
- contract payments complied with terms of the contracts;
- goods and/or services paid for under the terms of these contracts were received before payment was made;
- Building Commission contracts are awarded only to reputable, experienced contractors; and
- procedures for accumulating the amounts for inclusion in the General Fixed Asset Account Group as construction in progress and completed buildings appeared proper.

We interviewed key personnel about the procedures that were being used and compared these procedures to the applicable laws, regulations, and policies. We tested a sample of building commission contracts, building commission projects, and personal service contracts to determine if applicable laws, regulations, and policies were being followed.

As a result of our testwork, we had no findings. Minor weaknesses came to our attention which have been reported to management in a separate letter.

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## **DIVISION OF REAL PROPERTY AND CAPITAL PROJECTS MANAGEMENT**

Our objectives in reviewing the procedures used by this division were to determine whether

- controls are in place to ensure compliance with state regulations;
- controls are adequate to ensure that there are complete inventories in permanent form of all state-owned real property and property leased by the state;
- real property purchases are properly appraised;



- real property disposals have proper supporting documentation;
- properly completed deeds were on file for state-owned real property and property leased by the state;
- the documentation on state-owned real property complied with the applicable laws and regulations; and
- there is adequate security over the real property files.

We interviewed key personnel about the procedures being used and compared these procedures to applicable laws and regulations. We tested a sample of real property parcels to determine if there were properly completed deeds on file. We tested a sample of real property purchases to determine if there was adequate appraisal documentation on file. We tested a sample of real property disposals to determine if there was a properly executed quitclaim deed on file and if the property was removed from the land value report timely.

As a result of our testwork, we had no findings related to this division. Minor weaknesses came to our attention which have been reported to management in a separate letter.

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## **CONTINGENT REVENUE**

Our objectives in reviewing contingent revenue were to determine whether

- transactions related to contingent revenue were proper;
- debit balances could be adequately explained and were proper; and
- the index used to increase the balance of the fund's principal to offset the effects of inflation was proper and transferred in a timely manner.

We obtained a schedule of contingent revenue which showed the beginning balance, all activity affecting the account, and the ending balance. All pertinent balances and transactions were tested for propriety.

As a result of our testwork, we had no findings related to contingent revenue.

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## DEVELOPMENTAL CENTERS

Our objective in reviewing procedures at these centers was to determine whether

- adequate controls were in place to ensure that the centers properly administered and accounted for resident trust funds;
- controls over the operation of the commissary at the centers were adequate;
- controls over expenditures were adequate and in compliance with state regulations;
- controls over inventory were adequate; and
- the department had fully complied with Executive Orders 9 and 10.

We interviewed key personnel about the procedures used and compared these procedures to the applicable laws and regulations. We performed the testwork on trust fund balances and account withdrawals, commissary operating reports, access to the state's accounting and purchasing computer systems, center expenditures, inventory records, payroll, and equipment for compliance at Greene Valley Developmental Center. Follow-up testwork was also done at Arlington Developmental Center and Clover Bottom Developmental Center in those areas that had findings in the prior audit. A list of computer access capabilities was reviewed and analyzed, inventory counts were performed to assess the accuracy of the perpetual records, and a sample of equipment was selected to assess the accuracy of the property records.

As a result of our testwork, we had a finding related to equipment at Clover Bottom Developmental Center. Other minor weaknesses came to our attention which have been reported to management in a separate letter.

### 5. Recordkeeping for equipment is inadequate

#### Finding

As noted in the prior audit, Clover Bottom Developmental Center (CBDC) has not performed its annual inventory and does not maintain accurate property records. In the prior year, management responded that a property and equipment inventory was now done on an annual basis. However, as of July 13, 1999, the property and equipment inventory for the year ended June 30, 1999, had not yet been completed. Also, property items continue to be moved during the course of the count. The Property Management System Policy and Procedures Manual, section 4(D) states, "At least annually, the Property Officer will conduct an inventory of all the areas at CBDC. . . . During this time period, there will be no movement of any property." The lack of a complete inventory and the movement of items increases the risk of inaccurate property records.

CBDC needs improvement on the accuracy of its property records, as evidenced by the following problems:

- Two of 25 property items selected (8%) from the Property of the State of Tennessee (POST) property listing could not be located. The missing items were a meal cart and telephone equipment.
- For 3 of 23 items tested (13%), the state tag number was missing. Two of the items were identified by their serial numbers. The other item was specialized hospital equipment identified by its user assignment.
- For 6 of 23 items tested (26%), the serial number was either missing from POST or did not agree with the POST listing.

If equipment records are not kept up-to-date, the center will find it increasingly difficult to know what equipment it has and what needs to be purchased or surplused. In addition, unauthorized removal of equipment will become increasingly difficult to detect.

### **Recommendation**

The property officer should promptly update POST as changes in the center's property and equipment occur. Annual physical inventories should be performed in accordance with existing Department of General Services and Clover Bottom Developmental Center policies and procedures. Existing policies on state property tags should be followed and incorrect or missing tags should be replaced. Tag numbers, location, etc., should be accurately listed on the POST system.

### **Management's Comment**

We concur. Actions have been taken to ensure that POST is updated as inventory changes occur and that annual inventories are conducted.

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## **DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20 "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grant Module to record the disbursements of all federal funds. Our objectives were to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-ended using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the Schedules of Expenditures of Federal Awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy Statement 20. We performed compliance testwork to determine if the federal grants were loaded onto the grant control table timely and to determine if drawdowns were made at least weekly. We also examined reports that were submitted to the federal government to determine that they were prepared properly. As a result of this testwork, we had no findings. A minor weakness came to our attention which was reported to management in a separate letter.

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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Finance and Administration filed its report with the Department of Audit on December 20, 1999. A follow-up of all prior audit findings was conducted as part of the current audit.

## RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Finance and Administration has corrected previous audit findings concerning segregation of duties related to statewide payroll functions, signature authorization procedures, review of access to the State Employee Information System, Post-Audit review procedures at the Division of Accounts, control over department employees' access to the state's computer systems, billing procedures for Office for Information Resources equipment, OIR equipment inventory accountability, monitoring by the Office of Internal Audit, procedures over monitoring agreements entered into by the Division of Resource Development and Support, noncompliance with the state's grants

accounting policy, noncompliance with Executive Orders 9 and 10, controls over supplies inventory at Clover Bottom Developmental Center, and fiscal controls at Clover Bottom Developmental Center and Arlington Developmental Center.

## **REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning the Tennessee Insurance System and STARS not reconciling, lack of proper approvals for STARS program changes, and inadequate recordkeeping for equipment at Clover Bottom Developmental Center.

These findings have not been resolved and are repeated in the applicable sections of this report.

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## **OBSERVATIONS AND COMMENTS**

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### **TITLE VI OF THE CIVIL RIGHTS ACT OF 1964**

*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1999, the Department of Finance and Administration filed its compliance report and implementation plan on June 30, 1999.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

## **TITLE IX OF THE EDUCATION AMENDMENTS OF 1972**

*Tennessee Code Annotated*, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The Department of Finance and Administration did not file its compliance report and implementation plan by June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the Department of Finance and Administration is not in compliance with the federal law.

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## APPENDIX

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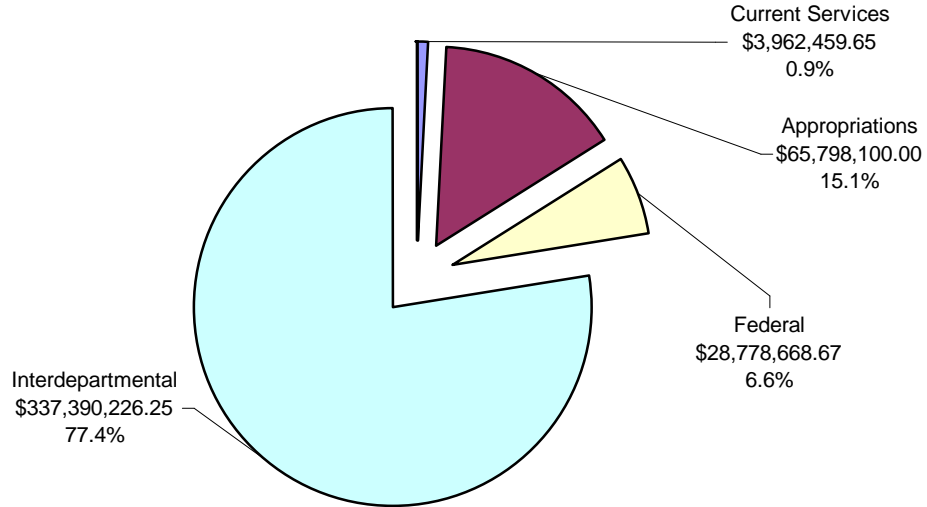
### DIVISIONS AND ALLOTMENT CODES:

Department of Finance and Administration divisions and allotment codes:

317.01	Executive Offices
317.02	Division of Budget
317.03	Office for Information Resources
317.04	Insurance Administration
317.05	Division of Accounts
317.06	Criminal Justice Programs
317.07	Division of Resource Development and Support
317.10	Capital Projects and Real Property Management
317.11	Commission on National and Community Services
317.30	Management Information Systems Fund
317.86	Tennessee Insurance System
339.21	Mental Retardation-Administration
339.22	Developmental Disabilities Services
339.23	Community Mental Retardation Services
339.24	Regional Offices of Community Services
339.25	Arlington Developmental Center
339.26	Clover Bottom Developmental Center
339.27	Greene Valley Developmental Center
355.02	State Building Commission
501.01	Facilities Revolving Fund
501.03	Facilities Management
501.04	Facilities Revolving Fund–Capital Projects
501.05	Facilities Revolving Fund–Debt Service

### Departmental Funding Sources

Fiscal Year Ended June 30, 1999 (Unaudited)

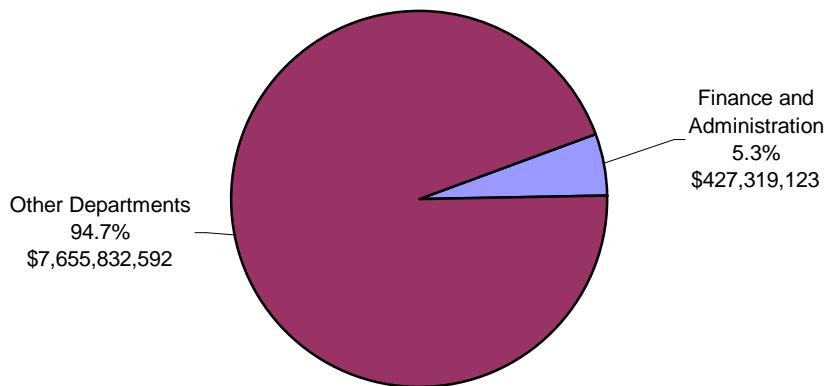


Source: Department of Finance and Administration

Note: OIR, Tennessee Insurance System, Facilities Revolving Fund, and State Building Commission are not included because they are not part of the General Fund.

### General Fund Expenditures

Fiscal Year Ended June 30, 1999 (Unaudited)



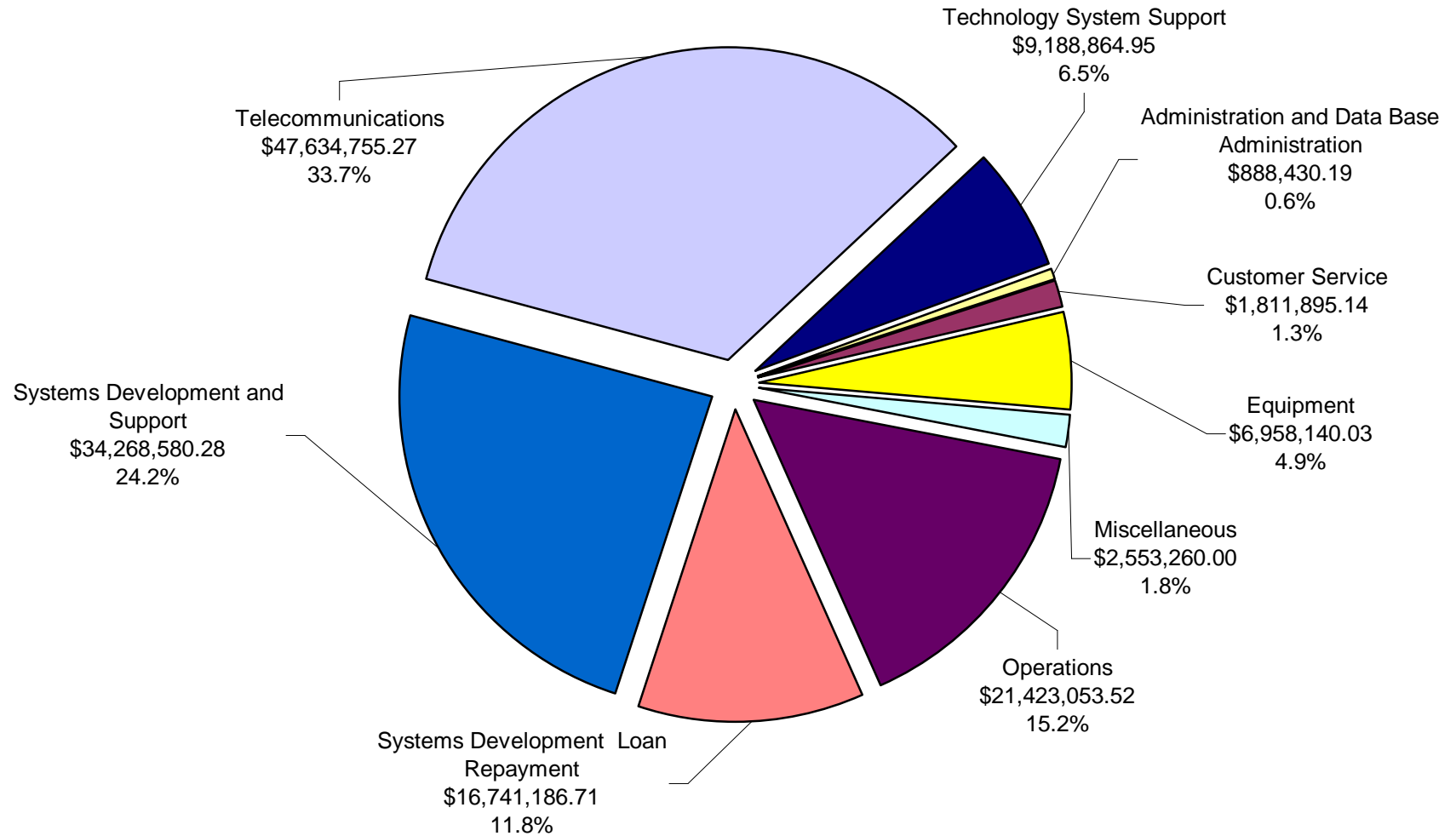
Source: Department of Finance and Administration

Note: OIR, Tennessee Insurance System, Facilities Revolving Fund, and State Building Commission are not included because they are not part of the General Fund.



## OIR Total Billable Services - \$141,468,166.09

Fiscal Year Ended June 30, 1999 (Unaudited)



Source: Department of Finance and Administration